

Endowment Fund Investment Board

Analyst: Houston

Historical Summary

OPERATING BUDGET	FY 2006 Total App	FY 2006 Actual	FY 2007 Approp	FY 2008 Request	FY 2008 Gov Rec
BY FUND CATEGORY					
General	0	0	0	15,300	0
Dedicated	574,800	508,700	627,800	625,400	637,500
Total:	574,800	508,700	627,800	640,700	637,500
Percent Change:		(11.5%)	23.4%	2.1%	1.5%
BY OBJECT OF EXPENDITURE					
Personnel Costs	360,700	303,600	374,800	391,900	391,500
Operating Expenditures	206,600	193,900	242,600	242,800	240,000
Capital Outlay	7,500	11,200	10,400	6,000	6,000
Total:	574,800	508,700	627,800	640,700	637,500
Full-Time Positions (FTP)	4.00	4.00	4.00	4.00	4.00

Division Description

The Endowment Fund Investment Board (EFIB) is responsible for managing the investments of the endowment funds (§57-721), the State Insurance Fund (§72-912), and the Judge's Retirement Fund (§1-2008).

The State Legislature created the Endowment Fund Investment Board in 1969 (Idaho Code §57-718), after the passage of a constitutional amendment in 1968. Before that, the State Treasurer had been responsible for the management of the state's endowment assets. The Department of Finance took over investment responsibilities for two years until the EFIB's first manager was hired and the office opened July 1, 1971.

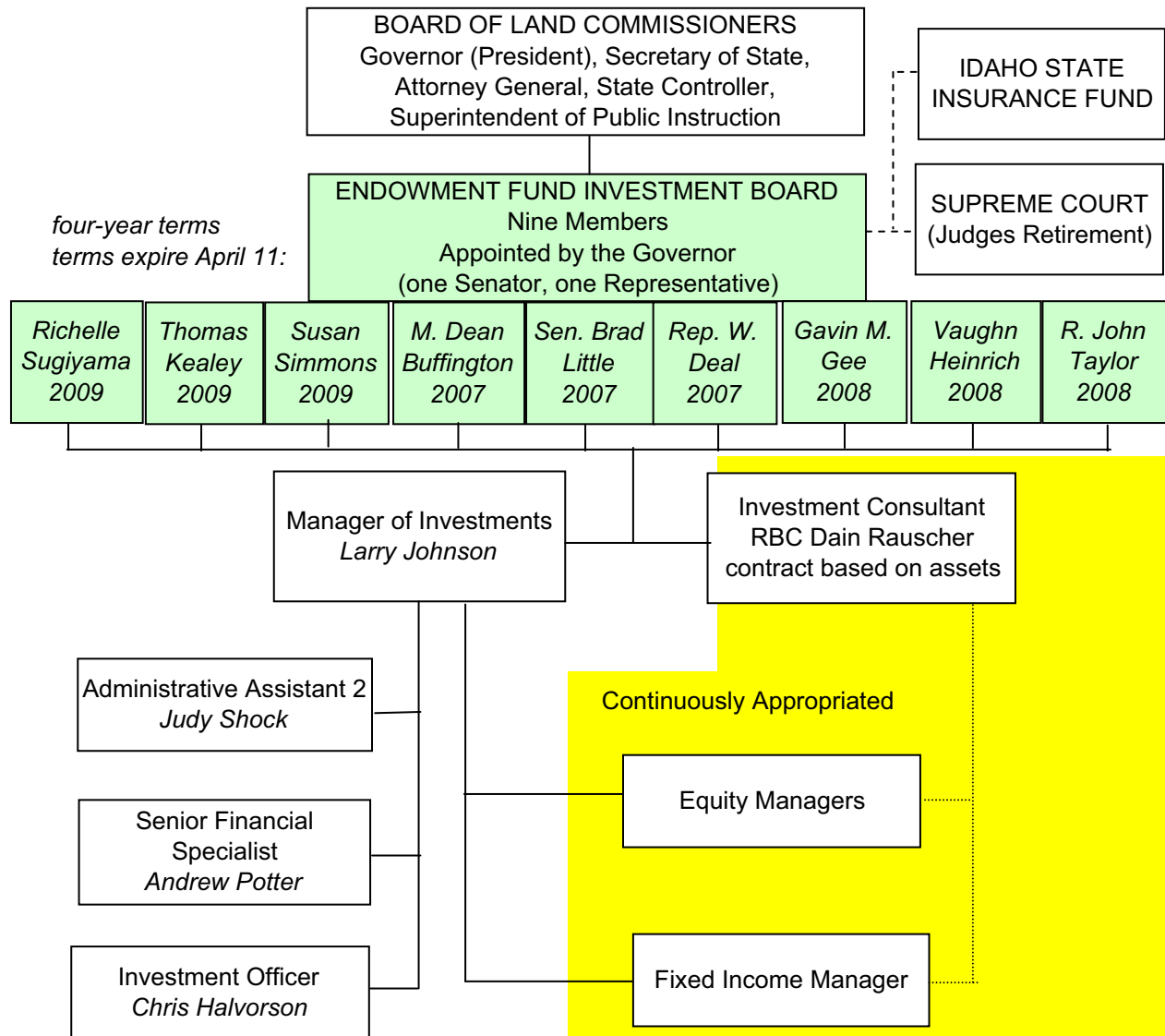
The 1998 legislature approved four pieces of legislation (HJM 9, HJR 6, HJR 8, and HB 643aa) that began the latest round of "Endowment Reform". 1) HJM 9 requested that Congress allow proceeds from the sale of public school endowment lands to be deposited into a land bank to be used to purchase other lands. Congress later approved the memorial. 2) HJR 6 proposed amendments to the state constitution to change the word "disposal" to "sale" and to allow a land bank. Voters approved the constitutional amendment but the Supreme Court later invalidated the amendment, ruling that the amendment contained two questions and was not put properly before the people. The land board resubmitted the constitutional amendment regarding the land bank as HJR 1 in 2000 and the electorate approved the amendment in November of 2000. 3) HJR 8 proposed amendments to the State Constitution to allow the permanent fund to be invested rather than loaned, to create an earnings reserve, and to allow for payment of administrative costs from the earnings reserve. Voters approved that constitutional amendment in November of 1998. 4) HB 643aa of 1998 set up the distribution mechanisms necessary for the permanent funds, the earnings reserve and the income funds. The bill moved the Endowment Fund Investment Board from the Governor's Office to the Land Board effective July 1, 2000. Therefore, actual expenditures before FY 2001 are shown in the Executive Office of the Governor. The legislation also set up a land bank, and changed the makeup of the Board. The makeup of the nine member Board changed to remove the Superintendent of Public Instruction and the Director of the Department of Finance and replaced them with two "public members from the citizenry at large who are knowledgeable and experienced in financial matters and the placement or management of investment assets" (§57-718). SB 1107 of 1999 changed the effective date of certain sections of HB 643aa to allow investment in equities effective February 15, 1999.

Furthermore, HB 690aa of 1998 established the Capitol Commission and the Capitol Endowment from the former Public Building Endowment. The legislation became effective on July 1, 1998 creating a potential conflict with HB643aa which became effective July 1, 2000. However, during the 2000 session, the legislature resolved that conflict by repealing the Public Building Endowment.

Endowment Fund Investment Board

Agency Profile

Analyst: Houston



Fund Sources

	FY 2006 Expenditures	Percent of Total	FY 2007 Orig. Approp.	FY 2008 Request
1. General Fund (0001-00)	0	0.0%	0	15,300
Beginning with Endowment reform in FY 2000, all General Fund appropriations were shifted to the Endowment Fund or the State Insurance Fund. This year the EFIB requests General Fund Appropriations for two specific purposes.				
2. Miscellaneous Revenue Fund (0349-00)	144,000	28.3%	192,900	126,600
The Endowment Fund Investment Board invests certain balances of the State Insurance Fund. This constituted approximately 28.3% of the Board's investments in FY 2006. The appropriation is adjusted annually to insure that earnings pay for the administrative costs of managing the State Insurance Fund portion of the Board's portfolio.				
3. Endow Earnings Reserve Admin (0482-70)	364,700	71.7%	434,900	498,800
Amendments to the Idaho State Constitution, effective July 1, 2000, allowed the legislature to appropriate administrative costs from the endowment earnings. The legislature provides a fixed appropriation for the salaries and operating costs of the staff and a continuous appropriation for external investment costs. The EFIB bills the Capitol Commission.				
Total	\$ 508,700	100.0%	\$ 627,800	\$ 640,700

Endowment Fund Investment Board

Agency Profile

Analyst: Houston

Profile of Key Services Provided

Millions of Dollars	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
End of Year Market Values						
1. Public School Permanent Endowment	\$511.7	\$441.5	\$436.2	\$500.6	\$537.2	\$581.9
2. Public School Earnings Reserve Fund	16.2	2.8	4.5	15.5	31.5	59.1
3. Pooled Endowments Permanent Funds	234.8	201.5	199.4	227.6	243.5	262.9
4. Pooled Endowments Earnings Reserves	24.9	18.0	14.8	17.7	22.4	32.4
5. Capitol Endowment	3.3	3.3	3.3	6.2	8.3	13.6
6. Subtotal Endowments	\$790.9	\$667.1	\$658.2	\$767.7	\$842.8	\$949.8
7. State Insurance Fund	293.2	290.1	311.8	357.8	413.4	472.9
8. Judges' Retirement Fund	0.0	46.9	46.8	51.2	53.7	57.3
9. Total Funds under Management	\$1,084.0	\$1,004.1	\$1,016.8	\$1,176.7	\$1,309.9	\$1,480.0

Endowment Funds - From Accrual-Based Annual Audits Restated to FY 2006

Public Schools Permanent Fund

10. Beginning Value July 1 Restated	\$556.0	\$511.7	\$441.5	\$436.2	\$500.6	\$537.2
11. Lands Contributions	1.7	1.4	2.2	.8	1.6	1.8
12. Change in Market Value	(46.0)	(71.5)	(7.6)	63.6	35.0	43.0
13. Public School Permanent Fund Balance	\$511.7	\$441.5	\$436.2	\$500.6	\$537.2	\$581.9
14. Change in Market Value/Beginning Value	-8.3%	-14.0%	-1.7%	14.6%	7.0%	8.0%

Loss Payback Calculation: After the end of six years, the Public School Perm Fund is \$16.5 million above the loss benchmark. This is calculated starting with an FY 2006 ending value of \$581.9 million less contributions of \$9.5 million less the FY 2000 ending value of \$556 million. That resets the 10-yr clock.

Public Schools Earnings Reserve Fund

15. Beginning Value July 1 Restated	\$7.2	\$16.2	\$2.8	\$4.5	\$15.5	\$31.5
16. Lands Contributions (FY01 incl 10% fund)	46.9	37.4	33.7	46.0	37.9	44.6
17. Lands Expenses	(7.3)	(8.8)	(9.7)	(8.9)	(12.2)	(11.1)
18. Income from Investments	21.3	13.2	10.4	11.6	13.6	15.4
19. EFIB Expenses	(1.3)	(2.8)	(2.2)	(1.9)	(2.4)	(2.6)
20. Change in Market Value	(5.9)	(4.8)	6.7	2.0	2.1	4.4
21. Distributions to Beneficiaries	(44.7)	(47.7)	(37.1)	(37.8)	(23.0)	(23.1)
22. Ending Public Schools Earnings Reserve	\$16.2	\$2.8	\$4.5	\$15.5	\$31.5	\$59.1

Pooled Endowments Permanent Fund

23. Beginning Value July 1 Restated	\$255.5	\$234.8	\$201.5	\$199.4	\$227.6	\$243.5
24. Lands Contributions	.2	.1	.2	.0	.1	.1
25. Change in Market Value	(21.0)	(33.4)	(2.3)	28.2	15.8	19.4
26. Pooled Permanent Fund Balances	\$234.8	\$201.5	\$199.4	\$227.6	\$243.5	\$262.9

Pooled Endowments Earnings Reserve Fund

27. Beginning Value July 1 Restated	\$3.1	\$24.9	\$18.0	\$14.8	\$17.7	\$22.4
28. Contribution from General Fund						\$4.6
29. Lands Contributions (FY01 incl. 10% fund)	38.2	17.6	15.4	17.0	16.6	18.3
30. Lands Expenses	(3.4)	(4.2)	(4.6)	(4.2)	(4.5)	(4.1)
31. Income from Investments	10.1	6.1	4.9	5.5	6.4	7.2
32. EFIB Expenses	(.6)	(1.3)	(1.1)	(.9)	(1.1)	(1.2)
33. Change in Market Value	(1.8)	(3.1)	2.1	2.9	1.7	2.4
34. Distributions to Beneficiaries	(20.8)	(22.0)	(19.9)	(17.4)	(14.4)	(17.3)
35. Ending Pooled Earnings Reserves Fund	\$24.9	\$18.0	\$14.8	\$17.7	\$22.4	\$32.4
36. Investment Return Before Fees	-10.3%	-8.2%	1.7%	16.8%	9.7%	10.9%

Endowment Fund Investment Board

Agency Profile

Analyst: Houston

Endowment Distributions to the Beneficiaries

On September 1, 2006, the Endowment Fund Investment Board (EFIB) submitted their budget request to the Division of Financial Management and the Legislative Services Office. The budget contained the Land Board approved endowment distributions for FY 2008. For public schools, the FY 2008 recommendation is \$2.3 million or 9.5% more than the FY 2007 appropriation. After accounting for 10% reductions in Penitentiary and School of Science (due to low coverage ratios) and 9% increases in the other endowments, the pooled endowment distribution is \$.42 million or 3.8% more than this year.

Fiscal Year	Distributions to Beneficiaries			% Change from previous year			Spending Rule	
	Pooled	Public Schools	Total Pooled & Pub Scl	Pooled	Public Schools	Total Pooled & Pub Scl	Pooled	Public Schools
2008*	11,622,000	26,995,000	38,617,000	3.8%	9.5%	7.7%	5.0%	5.0%
2007*	11,197,400	24,648,200	35,845,600	(11.5%)	6.8%	0.3%	5.0%	5.0%
2006	12,655,800	23,087,100	35,742,900	(12.3%)	0.6%	(4.4%)	6.0%	5.0%
2005	14,436,910	22,957,800	37,394,710	(16.8%)	(39.2%)	(32.1%)	7.0%	5.0%
2004	17,355,000	37,750,000	55,105,000	(12.9%)	1.9%	(3.3%)	7.5%	7.5%
2003	19,925,000	37,056,500	56,981,500	(9.3%)	(22.3%)	(18.2%)	7.5%	7.5%
2002	21,965,000	47,675,000	69,640,000	5.9%	6.7%	6.4%	8.0%	8.0%
2001	20,750,000	44,700,000	65,450,000	7.9%	4.6%	5.6%	8.5%	8.5%
2000	19,225,283	42,753,811	61,979,094	12.4%	3.4%	6.1%	Note 1: Post reform distributions are based on a percent to the 3-year moving average of the permanent funds. The FY 2003 Public School payout was short of the 7.5% rule by \$6.25 million.	
1999	17,106,900	41,331,115	58,438,015	5.6%	3.2%	3.9%		
1998	16,196,150	40,040,799	56,236,949	2.1%	10.7%	8.1%		
1997	15,859,342	36,159,798	52,019,140	7.6%	15.2%	12.8%		
1996	14,740,394	31,378,096	46,118,490	9.8%	3.1%	5.2%		
1995	13,426,310	30,426,255	43,852,565					

Fiscal Year	Agricultural College	Charitable Institutions ¹	Normal School ²	Penitentiary	School of Science	Mental Hospital	University of Idaho	Total Pooled
2008*	725,000	2,582,000	2,310,000	728,000	2,138,000	1,149,000	1,990,000	11,622,000
2007*	661,200	2,361,300	2,115,700	809,300	2,375,800	1,051,500	1,822,600	11,197,400
2006	(2,130,000)	(2,470,000)	3,205,600	2,444,800	2,848,500	5,291,400	3,465,500	12,655,800
2005	380,400	1,407,450	2,969,624	1,509,520	3,136,900	1,874,720	3,158,296	14,436,910
2004	960,000	3,430,000	3,195,000	1,215,000	3,785,000	1,660,000	3,110,000	17,355,000
2003	1,139,000	4,070,000	3,695,000	1,358,000	4,254,000	1,905,000	3,504,000	19,925,000
2002	1,280,000	4,673,000	4,068,000	1,566,000	4,709,000	2,024,000	3,645,000	21,965,000
2001	1,127,000	4,502,000	3,788,000	1,521,000	4,479,000	1,845,000	3,488,000	20,750,000
2000	964,277	3,806,215	3,870,068	1,251,157	3,778,442	2,462,520	3,092,604	19,225,283
1999	873,990	3,840,734	3,312,164	1,200,994	3,535,388	1,716,600	2,627,030	17,106,900
1998	888,342	3,395,470	3,158,530	1,122,762	3,096,427	1,944,081	2,590,538	16,196,150
1997	819,356	3,586,560	3,214,554	1,122,666	3,244,258	1,394,933	2,477,015	15,859,342
1996	770,790	3,132,278	2,721,294	1,282,320	2,806,409	1,581,336	2,445,967	14,740,394
1995	722,892	2,850,557	2,441,476	1,148,952	2,506,060	1,408,037	2,348,336	13,426,310

* Estimates

¹ Charitable Institutions: 4/15 Idaho State University, 4/15 State Juvenile Corrections Center, 4/15 State Hospital North, 5/30 Veterans Home, and 1/30 School for the Deaf and the Blind.

² Normal School: 1/2 to ISU College of Education and 1/2 to Lewis Clark State College.

Note 2: FY 2001 was the first year after endowment reform. Before that, timber revenues were deposited to the permanent fund and lease and interest revenues were distributed to the beneficiaries. Since reform, interest, lease income, and timber revenues have been put into the earnings reserve and distributions to the beneficiaries have been based on the values of the permanent funds. In January of 2005, the EFIB suspended distributions to the Ag College and Charitable Institutions due to negative balances in the Earnings Reserves. The Joint Finance-Appropriations Committee adjusted the FY 2005 and FY 2006 appropriations to keep the overall support as anticipated except for 6-mos FY 2005 reductions to Deaf and Blind (\$46,915) and Veterans Services (\$234,575).

Endowment Fund Investment Board

Analyst: Houston

Comparative Summary

Decision Unit	Agency Request			Governor's Rec		
	FTP	General	Total	FTP	General	Total
FY 2007 Original Appropriation	4.00	0	627,800	4.00	0	627,800
Removal of One-Time Expenditures	0.00	0	(10,400)	0.00	0	(10,400)
FY 2008 Base	4.00	0	617,400	4.00	0	617,400
Benefit Costs	0.00	0	5,400	0.00	0	0
Inflationary Adjustments	0.00	0	3,500	0.00	0	700
Replacement Items	0.00	0	3,500	0.00	0	3,500
Statewide Cost Allocation	0.00	0	(3,300)	0.00	0	(3,300)
Change in Employee Compensation	0.00	0	11,700	0.00	0	16,700
FY 2008 Program Maintenance	4.00	0	638,200	4.00	0	635,000
1. Adjust Budget between Funds	0.00	0	0	0.00	0	0
2. Continuous Appropriation	0.00	0	0	0.00	0	0
3. Board Room Furniture	0.00	0	2,500	0.00	0	2,500
4. Judges Retirement Expenses	0.00	15,300	0	0.00	0	0
FY 2008 Total	4.00	15,300	640,700	4.00	0	637,500
Change from Original Appropriation	0.00	15,300	12,900	0.00	0	9,700
% Change from Original Appropriation			2.1%			1.5%

Endowment Fund Investment Board

Analyst: Houston

Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
FY 2007 Original Appropriation	4.00	0	627,800	0	627,800

Removal of One-Time Expenditures

Removes one-time funding provided for computer equipment, furniture, and a digital recording system.

Agency Request	0.00	0	(10,400)	0	(10,400)
Governor's Recommendation	0.00	0	(10,400)	0	(10,400)

FY 2008 Base					
Agency Request	4.00	0	617,400	0	617,400
Governor's Recommendation	4.00	0	617,400	0	617,400

Benefit Costs

Restores funding for one health insurance holiday taken in FY 2007. Also includes the employer-paid portion of estimated changes in employee benefit costs. The two biggest factors are health insurance rates and retirement rates. Health insurance is projected to increase by 4.9% or \$350 per position. Retirement rates are scheduled to increase by 5.9% from 10.39% to 11% of salary for regular employees. Other benefit changes include minor adjustments in unemployment insurance rates and workers compensation rates.

Agency Request	0.00	0	5,400	0	5,400
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The Governor recommends that all health insurance related adjustments be funded by program changes or utilizing reserves available in the group insurance contract. As the PERSI Board voted to maintain the current contribution rate for the upcoming fiscal year, no adjustment to retirement rates is necessary.

Governor's Recommendation	0.00	0	0	0	0
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Inflationary Adjustments

This customized inflationary adjustment is a 1.4% increase over the base. It is calculated by subtracting statewide allocation plan costs and applying a 1.81% increase for all remaining operating costs.

Agency Request	0.00	0	3,500	0	3,500
Governor's Recommendation	0.00	0	700	0	700

Replacement Items

Replacement items include \$3,000 for two computers and \$500 for a file cabinet.

Agency Request	0.00	0	3,500	0	3,500
Governor's Recommendation	0.00	0	3,500	0	3,500

Statewide Cost Allocation

This decision unit includes adjustments in funding for services provided by state agencies as follow: a reduction of \$1,800 for Attorney General fees and a reduction of \$1,500 for State Controller fees.

Agency Request	0.00	0	(3,300)	0	(3,300)
Governor's Recommendation	0.00	0	(3,300)	0	(3,300)

Change in Employee Compensation

Reflects the calculated cost of a 3.5% salary increase for permanent positions.

Agency Request	0.00	0	11,700	0	11,700
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The Governor recommends a compensation increase of 5% to be distributed based on merit.

Governor's Recommendation	0.00	0	16,700	0	16,700
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FY 2008 Program Maintenance					
Agency Request	4.00	0	638,200	0	638,200
Governor's Recommendation	4.00	0	635,000	0	635,000

1. Adjust Budget between Funds

The request includes a fund shift of \$71,000 from the State Insurance Fund to the Endowment Administrative Fund to reflect an increase in the portion of the administrative costs charged to the Endowments. The amount reflects a change in the methodology of assigning administrative costs from the proportion of funds under management to the proportion of the man-hours worked on the funds under management. About 80% of the administrative budget will be charged to the Endowments but the Endowment Funds represent only 64% of the funds under management.

Agency Request	0.00	0	0	0	0
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Recommended by the Governor.

Governor's Recommendation	0.00	0	0	0	0
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Endowment Fund Investment Board

Analyst: Houston

Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
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2. Continuous Appropriation

The Endowment Fund Investment Board requests a continuous appropriation for consulting fees, bank custodial fees, and portfolio-related external costs. The variable costs associated with these services depend on the size of the portfolio and the turnover of investments. This uncertainty makes budgeting difficult. Legislative intent included in the appropriation bill allows the Legislature to re-evaluate the need for a continuous appropriation on an annual basis and to consider a fixed appropriation should the costs be determined to be more predictable. Actual costs paid through the continuous appropriation for FY 2001 were \$1,327,421 (the first full-year after endowment reform), \$3,215,995 for FY 2002, \$2,528,072 for FY 2003, \$2,178,500 for FY 2004, \$2,603,623 for FY 2005, and \$3,832,942 for FY 2006.

Language Requested: The Endowment Fund Investment Board is hereby granted continuous appropriation authority for consulting fees, bank custodial fees, and portfolio-related external costs for the period July 1, 2007, through June 30, 2008.

Agency Request	0.00	0	0	0	0
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Recommended by the Governor.

Governor's Recommendation	0.00	0	0	0	0
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3. Board Room Furniture

At the request of the EFIB, the landlord (Department of Lands) expanded and remodeled the board room. The additional square footage was added to the annual lease and handled within the existing budget. The board requests one-time capital outlay of \$1,500 for ten chairs and \$1,000 for a bookcase and décor. Funding is split 80% endowment and 20% State Insurance Fund. [One-time]

Agency Request	0.00	0	2,500	0	2,500
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Governor's Recommendation	0.00	0	2,500	0	2,500
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4. Judges Retirement Expenses

The EFIB is requesting a General Fund appropriation to cover the proportionate share of expenses of managing the investments of the Judges' Retirement Fund. At the time endowment reform was implemented in 2000, the costs for overseeing the Judges Retirement Fund were minimal and all General Fund appropriations were shifted to the Endowment Funds and the State Insurance Fund. In the last few years, the EFIB has taken a more active role in the management of the Judges Retirement Fund and has re-evaluated the fairness of allocating staff costs to the retirement fund. Although the consulting fees, bank custodial fees, and portfolio-related external costs are paid directly by the courts, the judges contend that Section 1-2008, Idaho Code, does not expressly permit administrative costs to be paid from the Judges Retirement Fund to the EFIB. [All but \$100, ongoing]

Agency Request	0.00	15,300	(15,300)	0	0
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Not recommended by the Governor.

Governor's Recommendation	0.00	0	0	0	0
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FY 2008 Total

Agency Request	4.00	15,300	625,400	0	640,700
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Governor's Recommendation	4.00	0	637,500	0	637,500
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Agency Request

Change from Original App	0.00	15,300	(2,400)	0	12,900
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% Change from Original App	0.0%		(0.4%)		2.1%
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Governor's Recommendation

Change from Original App	0.00	0	9,700	0	9,700
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% Change from Original App	0.0%		1.5%		1.5%
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